

VZCZCXRO6871
PP RUEHSL
DE RUEHRA #0339 1690631
ZNR UUUUU ZZH
P 180631Z JUN 09
FM AMEMBASSY RIGA
TO RUEHC/SECSTATE WASHDC PRIORITY 5904
INFO RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEHZL/EUROPEAN POLITICAL COLLECTIVE

UNCLAS RIGA 000339

SIPDIS

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PGOV](#) [LG](#)
SUBJECT: LATVIA PASSES 2009 BUDGET AMENDMENTS, IMF-EC DECISIONS
PENDING

¶1. Summary: The Saeima (Parliament) approved amendments to the 2009 budget, which are intended to satisfy international donor requirements and ensure continued disbursement of international aid. The package is a mix of cuts, especially to social programs, and revenue increases. After the vote, both the European Commission (EC) and the IMF announced that they applauded the passage but will need time to review the measures adopted. Latvia desperately needs approval of the international lenders, as without renewed disbursement of IMF-EC funds, government coffers go empty in July. The package does not appear to contain the structural reforms we and others have been pushing the Latvians to make for months, a point even the Finance Minister seemed to acknowledge. End summary.

¶2. Following ten days of frantic action in which the government had promised to find 500 million lats (roughly \$1 billion USD) in spending cuts and revenue enhancements, the budget package was adopted by the parliament on June 16.. The government's plan aims to increase revenues in several ways, with requirements that at least 80% of state-owned company profits be transferred to the state, reduction of the non-taxable monthly income minimum from 90 lats (\$180 USD) to 35 lats (\$70 USD), and increasing excise taxes on beer and hard liquor. Two previously floated proposals, adoption of a progressive income tax and introduction of capital gains taxes on real estate, failed to gain support and were not included in the measures.

¶3. The plan relies primarily on cuts in government spending. Some of the most controversial cuts affect retirement pensions, maternity support payments, and teacher salaries. Retirement pensions were reduced by 10% (70% for working retirees), maternity support payments were reduced by 50%, and teacher salaries cut by 40%. Pay for government workers will also reduced by 20%, and many councils at state-owned enterprises will be abolished. The amended budget measure will take effect on July 1.

¶4. The EC welcomed the budget's passage, calling it courageous and ambitious, but both the Commission and the IMF will need to review the proposals before making determinations on further disbursements of assistance. They also noted that implementation will be key and the 2009 measures will need to be followed by additional measures in 2010 and beyond. Latvian PM Dombrovskis stated that he hoped for a decision by the international lenders by June 26. The Latvian State Treasury has stated that government funds can currently only last into July without the assistance, or at least positive comments by the lenders that would induce renewed investor purchases of Latvia's short-term debt.

¶5. This is only the first step in a much longer journey. The package seems to again focus on across the board cuts rather than structural reforms, a point even Finance Minister Repse seemed to concede when he said that the cuts were so deep they would "force reforms". In the end, the package is about what one would expect from a process in which all tough decisions have been put off until the last minute and a multi-month process was squeezed into just ten days.

ROGERS